

**RURAL WATER DISTRICT NO. 3
NEMAHA COUNTY, KANSAS**

**Financial Statements for the
Years Ended December 31, 2019 and 2018
and Independent Auditors' Report**

**RURAL WATER DISTRICT NO. 3
NEMAHA COUNTY, KANSAS**

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Acord Cox & Company

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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Board of Directors and Members
Rural Water District No. 3
Nemaha County, Kansas

We have audited the accompanying statements of net position of Rural Water District No. 3, Nemaha County (the "District") as of December 31, 2019 and 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

As more fully described in Note 6 to the financial statements, the District has not implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" and therefore the financial statements referred to above are not presented in accordance with accounting principles generally accepted in the United States of America.

GASB 68, which is effective for fiscal years beginning after June 15, 2014, requires entities to report their "share" of the net unfunded pension liability as an obligation on the face of the Statement of Net Position along with certain other detailed footnote disclosures related to the pension plan including, among other things, the actuarial assumptions used to determine the pension liability.

The District participates in the Kansas Public Employees Retirement System (KPERS), a multiple employer public employee defined benefit plan. In 2019 and 2018, KPERS computed and published the net pension liability (NPL) as of June 30, 2019 and 2018, respectively, for each participating employer.

The implementation of GASB No. 68 would have resulted in the District recording a net pension liability of approximately \$103,000 and \$105,000 at December 31, 2019 and 2018, respectively.

Qualified Opinion

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion section, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the District as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter: Management's Discussion and Analysis

Management's discussion and analysis on pages 3 through 7 is presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

January 31, 2020

Acord Cop & Co.

Rural Water District No. 3

Nemaha County, Kansas

Management's Discussion and Analysis

This section of the Rural Water District No. 3, Nemaha County, Kansas' Annual Financial Report presents an analysis of the District's financial performance during the fiscal years ended December 31, 2019 and 2018. This information is prepared by RWD No. 3 and presented in conjunction with the annual audited financial report prepared by the District's independent auditing firm.

Rural Water District No. 3 Financial Overview for 2019

- Total assets increased by \$16,839 from \$9,398,472 in 2018 to \$9,381,633 in 2019.
- Total liabilities decreased by \$149,006 from \$1,799,060 in 2018 to \$1,650,054 in 2019.
- Net Position increased by \$132,167 from \$7,599,412 in 2018 to \$7,731,579 in 2019.
- Total operating revenues for 2019 were \$1,005,078, an \$81,582 decrease from \$1,086,660 in 2018.
- Total operating expenses for 2019 were \$916,469, a \$41,255 increase from \$875,214 in 2018.
- New equipment and water system construction improvements of \$312,939 were added in 2019.
- Outstanding long-term debt decreased by \$168,061 from \$1,728,541 on December 31, 2018 to \$1,560,480 on December 31, 2019.

Overview of the Financial Statements

This report will include Management's Discussion and Analysis, Financial Statements for the years ended December 31, 2019 and 2018, along with the Independent Auditors' Report. The Independent Auditors' Report will include notes and supporting details for information presented in Management's Discussion and Analysis.

Required Financial Statements

The Financial Statements of the District report information by using accrual accounting practices. The Financial Statements conform to accounting principles that are generally accepted in the United States of America. The Statements of Net Position include information on the District's assets and liabilities and provides information about the type and amounts of investments (assets) secured and the obligations to the District's creditors (liabilities). The Statements of Revenues, Expenses and Changes in Net Position exhibit

the District's revenues and expenses for the fiscal years ended December 31, 2019 and 2018. The Statements of Cash Flows present information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities.

Financial Analysis of the District

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position present information on the District's financial condition. The District's net position is indicated by the difference between its assets and liabilities. An improvement in the Districts' financial condition is reflected in its increase of net position.

Net Position

A summary of the District's Statements of Net Position is presented below.

Table 1
Condensed Statements of Net Position

	2019	2018	Dollar Change	Percent Change
Current and other assets	2,469,405	2,472,209	(2,804)	-0.1%
Capital assets, net	6,671,591	6,685,051	(13,460)	-0.2%
Other assets, net	240,637	241,212	(575)	-0.2%
Total Assets	9,381,633	9,398,472	(16,839)	-0.2%
Long-term debt	1,386,650	1,560,480	(173,830)	-11.1%
Other liabilities	263,404	238,580	24,824	10.4%
Total Liabilities	1,650,054	1,799,060	(149,006)	-8.3%
Net position invested in capital assets, net of related debt	5,111,111	4,956,510	154,601	3.1%
Restricted net position	240,637	241,212	(575)	-0.2%
Unrestricted net position	2,379,831	2,401,690	(21,859)	-0.9%
Total Net Position	7,731,579	7,599,412	132,167	1.7%

Total assets decreased by \$16,839 from \$9,398,472 in 2018 to \$9,381,633 in 2019. This is a result of depreciation of capital assets.

Total liabilities decreased by \$149,006 from \$1,799,060 in 2018 to \$1,650,054 in 2019. The decrease is a net result of a \$149,006 decrease in long-term debt, and a net \$24,823 increase in all other liabilities.

Table 1 also indicates that the total net position increased by \$132,167 from \$7,599,412 in 2018 to \$7,731,579 in 2019.

Table 2
Condensed Statements of Revenues, Expenses and Changes in Net Position

	2019	2018	Dollar Change	Percent Change
Operating revenues	1,005,078	1,086,660	(81,582)	-7.5%
Non-operating revenues	42,050	35,910	6,140	17.1%
Total Revenues	1,047,128	1,122,570	(75,442)	-6.7%
Depreciation & amortization expense	326,398	328,743	(2,345)	-0.7%
Other operating expense	590,071	546,471	43,600	8.0%
Non-operating expense	35,280	37,905	(2,625)	-6.9%
Total Expenses	951,749	913,119	38,630	4.2%
Income (loss) before capital contributions	95,378	209,451	(114,073)	-54.5%
Capital contributions	36,789	43,406	(6,617)	-15.2%
Changes in net position	132,167	252,857	(120,690)	-47.7%
Beginning net position	7,599,412	7,346,555	252,857	3.4%
Total Net Position	7,731,579	7,599,412	132,167	1.7%

The Statements of Revenues, Expenses and Changes in Net Position presents revenue and expense items that affect the change in net position. As the information presented in Table 2 shows, income, before capital contributions, was \$95,378 for the year ending December 31, 2019, compared to \$209,451 in 2018. Year 2019 Capital Contributions were \$36,789 compared to \$43,406 in 2018. Income plus contributions resulted in a \$132,167 increase in net position during 2019 compared to \$252,857 in 2018.

Table 2 reflects the District's total revenues decreased by \$75,442 from \$1,122,570 in 2018 to \$1,047,128 in 2019. The decrease in revenues is a result of \$81,582 decrease in water sales and a net increase of \$6,140 in other and non-operating revenues. The decrease in water sales is attributed to weather conditions in 2019. Total expenses increased by \$38,630. Non-operating expense decreased by \$2,625 from \$37,905 in 2018 to \$35,280 in 2019.

Net position increased by \$132,167 from \$7,599,412 on December 31, 2018 to \$7,731,579 on December 31, 2019.

Long-Term Debt

In September 2012, all debt remaining at the time was refinanced with the issuance of Series 2012 Revenue Bonds in the amount of \$1,780,000. The average net interest rate of the bond issue is 2.073% with a final bond maturity scheduled for August 1, 2025. RWD No. 3 made scheduled principal repayments in February and in August of 2019. Outstanding principal balance for this Series 2012 Bond as of December 31, 2019 was \$865,000.

A Kansas Public Water Supply Loan Fund, Project No. 2856, loan administered by Kansas Department of Health and Environment (KDHE), was finalized December 12, 2016. The initial loan principal was \$794,984. The KDHE Project No. 2856 loan terms include semi-annual Principal and Interest payments of \$24,850 and an annual gross interest rate of 2.31%. Pursuant to the loan, RWD No. 3 made scheduled loan payments on February 1, 2019 and August 1, 2019. The outstanding principal balance for this KDHE Project No. 2856 loan as of December 31, 2019 was \$695,479. Included in the loan principal were funds to establish a \$79,498 loan reserve account held by KDHE. Interest earnings on the loan reserve account are credited to each semiannual repayment. The loan reserve account principal will be credited to the final maturities of the loan. The final loan payment is scheduled for August 1, 2036.

Combined total outstanding debt, including current portion of the long term debt, as of December 31, 2019 was \$1,560,480.

Economic Factors and Next Year's Budget and Rates

The staff and the Board of Directors reviews water rates, debt schedules, benefit unit fees and the long-range capital improvement plans on an annual basis. Adjustments to the rate and fee schedule are implemented as deemed appropriate or necessary to insure that the district maintains a sound financial position.

A water rate schedule adjustment became effective for all water use and service after December 1, 2014. The management anticipates that the existing water rate schedule will be adequate to maintain a sound financial position throughout the year 2020.

The Board of Directors has adopted a 2020 budget that projects a net operating income of \$110,820. The budget conservatively estimates gross revenues of \$1,036,500, a decrease of \$10,628 from 2019 revenues of \$1,047,128. The 2020 budget reflects a \$26,069 decrease in overall operating expense to \$925,680, down from \$951,749 in 2019. The budgeted expense figure factors inflation and also the net anticipated changes for other operating expense line items.

Additional Financial Information

This financial report is designed to provide the District's patrons, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact Paul J. Strathman, Business Manager, Rural Water District No. 3, Nemaha County, KS at 905 US Highway 36, Seneca, Kansas.

RURAL WATER DISTRICT NO. 3
NEMAHA COUNTY, KANSAS

STATEMENTS OF NET POSITION
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,019,413	\$ 1,917,899
Accounts receivable	78,388	72,231
Interest receivable	932	303
Inventory	55,343	55,704
Prepaid expenses	12,705	13,456
Certificates of deposit	302,623	412,616
Total current assets	<u>2,469,404</u>	<u>2,472,209</u>
NONCURRENT ASSETS		
Reserve account	<u>240,637</u>	<u>241,212</u>
CAPITAL ASSETS		
Nondepreciable capital assets	<u>336,203</u>	<u>59,775</u>
Depreciable capital assets	12,991,376	12,954,865
Less accumulated depreciation	<u>(6,655,987)</u>	<u>(6,329,589)</u>
Depreciable capital assets, net	<u>6,335,389</u>	<u>6,625,276</u>
Total capital assets, net	<u>6,671,592</u>	<u>6,685,051</u>
Total assets	<u><u>9,381,633</u></u>	<u><u>9,398,472</u></u>
LIABILITIES		
CURRENT LIABILITIES		
Current maturities of long-term debt	173,830	168,061
Accounts payable and accrued expenses	72,128	46,987
Interest payable	14,307	15,441
Deposits	<u>3,139</u>	<u>8,091</u>
Total current liabilities	<u>263,404</u>	<u>238,580</u>
LONG-TERM DEBT, less current maturities	<u>1,386,650</u>	<u>1,560,480</u>
Total liabilities	<u>1,650,054</u>	<u>1,799,060</u>
NET POSITION		
Invested in capital assets, net of related debt	5,111,112	4,956,510
Restricted	240,637	241,212
Unrestricted	<u>2,379,830</u>	<u>2,401,690</u>
Total net position	<u><u>\$ 7,731,579</u></u>	<u><u>\$ 7,599,412</u></u>

RURAL WATER DISTRICT NO. 3
NEMAHA COUNTY, KANSAS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
REVENUES		
Water sales	\$ 991,633	\$ 1,071,088
Other operating	<u>13,445</u>	<u>15,572</u>
	1,005,078	1,086,660
COSTS AND OPERATING EXPENSES		
Personnel costs	187,288	176,595
Depreciation and amortization	326,398	328,743
Chemical expense	36,706	36,708
Supplies	7,149	6,578
Utilities	105,364	110,955
Professional services	9,647	12,835
Transportation expense	12,156	10,059
Office and shop expense	14,215	16,137
Insurance	21,866	21,853
Repairs	131,066	75,964
Miscellaneous and lab testing	5,384	6,553
Cost of water purchased	39,302	50,319
Water use fees	<u>19,928</u>	<u>21,916</u>
	916,469	875,214
INCOME FROM OPERATIONS	<u>88,609</u>	<u>211,446</u>
NON-OPERATING REVENUES (EXPENSES)		
Other	-	11,695
Interest expense	(35,280)	(37,905)
Interest income	<u>42,050</u>	<u>24,215</u>
	6,770	(1,995)
INCOME BEFORE CONTRIBUTIONS	95,378	209,451
CONTRIBUTIONS - BENEFIT UNITS AND AID-IN CONSTRUCTION	<u>36,789</u>	<u>43,406</u>
INCREASE IN NET POSITION	132,167	252,857
NET POSITION, BEGINNING OF YEAR	<u>7,599,412</u>	<u>7,346,555</u>
NET POSITION, END OF YEAR	<u>\$ 7,731,579</u>	<u>\$ 7,599,412</u>

**RURAL WATER DISTRICT NO. 3
NEMAHA COUNTY, KANSAS**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
OPERATING ACTIVITIES:		
Cash receipts from customers	\$ 993,969	\$ 1,072,391
Cash payments to suppliers for goods and services	<u>(563,818)</u>	<u>(547,380)</u>
Net cash provided by operating activities	<u>430,151</u>	<u>525,011</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Additions to fixed assets	(312,939)	(72,051)
Advances (payments) on long term debt, net	(168,061)	(167,310)
Interest and loan fees paid	(36,415)	(27,226)
Contributions - Benefit units and aid-in construction	<u>36,789</u>	<u>43,406</u>
Net cash used in capital and related financing activities	<u>(480,626)</u>	<u>(223,181)</u>
INVESTING ACTIVITIES:		
Change in certificates of deposit	109,993	328,807
Change in reserve funds	575	(446)
Interest received	<u>41,421</u>	<u>25,165</u>
Net cash provided by investing activities	<u>151,989</u>	<u>353,526</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	101,514	655,356
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,917,899</u>	<u>1,262,543</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,019,413</u>	<u>\$ 1,917,899</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 88,609	\$ 211,446
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	326,398	328,743
Changes in:		
Accounts receivable	(6,157)	3,372
Inventories	361	(5,457)
Prepaid expenses	751	(13,028)
Accounts payable and accrued liabilities	25,141	(1,423)
Deposits	<u>(4,952)</u>	<u>1,358</u>
Net cash provided by operating activities	<u>\$ 430,151</u>	<u>\$ 525,011</u>

RURAL WATER DISTRICT NO. 3

NEMAHA COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

1. DESCRIPTION OF ENTITY

- a. Organization and Description of Operations – The Rural Water District (the “District”) was established as a tax exempt organization under the laws of the State of Kansas and is governed by an independent Board of Directors. Principal functions of the District include the acquisition, treatment and distribution of water to owners and occupants of land located within the district. Total customers at December 31, 2019 and 2018 were 1,244 and 1,239, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Basis of Presentation and Accounting – The District’s financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply applicable GASB pronouncements, including GASB Statement No. 34, as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District’s assets, liabilities, net position, revenues and expenses.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included in the statements of net position. Net position (i.e. total assets net of total liabilities) are segregated into invested capital assets, net of related debt; restricted for debt service; and unrestricted components.

Management of the District has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

- b. Cash Equivalents – For purposes of the statements of cash flows the District considers all highly liquid debt investments having original maturities of three months or less to be cash equivalents.
- c. Inventories – Inventories consist primarily of meters, line maintenance material and chemicals. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.
- d. Debt Issue Costs – Costs related to the issuance of debt are expensed as incurred.
- e. Capital Assets – The cost of additions to the District’s plant, distribution system and other assets with an estimated useful life in excess of two years are capitalized. Cost includes materials, outside services and, if applicable, interest on borrowed funds to finance construction. The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting

from the disposal is credited or charged in the nonoperating section of the statement of revenues, expenses and changes in net position.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

- f. Income Taxes – The District is a quasi-governmental unit, not subject to federal or state income taxes.
- g. Capital Contributions – Transmission and distribution system assets contributed to the District are capitalized at the members' costs, which approximate fair value, and recorded as capital contributions when received.
- h. Accounts Receivable and Unbilled Revenue – The District utilizes cycle billing and accrues an estimated amount of revenues for sales unbilled at the end of each reporting period. The unbilled amount plus any amounts billed to customers but not yet received by The District is recorded as accounts receivable and water sales.
- i. Net Position – Net position comprise the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Invested in Capital Assets, Net of Related Debt – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

- j. Subsequent Events – Management has evaluated subsequent events through the date of the Independent Auditors' Report, the date which the financial statements were available for issue.

3. CASH AND INVESTMENTS

The District maintains its cash balances in three banks. At times, the District maintains deposits in financial institutions in excess of federally insured limits. Management monitors the soundness of these institutions and feels the District's risk is negligible. At December 31, 2019 and 2018, the District's deposits were covered by federal depository insurance or by collateral held by the District's agent in the District's name.

4. CAPITAL ASSETS

Changes in capital assets were as follows:

	2017	Additions	Disosals/ Transfers	2018
Nondepreciable capital assets:				
Land	59,775	-	-	59,775
Construction in progress	3,274	-	(3,274)	-
	<u>63,049</u>	<u>-</u>	<u>(3,274)</u>	<u>59,775</u>
Depreciable capital assets:				
Building	209,000	-	-	209,000
Tanks and standpipes	2,217,259	-	-	2,217,259
Transmission and distribution	10,339,165	43,522	-	10,382,687
Furniture and fixtures	99,895	4,150	(10,218)	93,827
Vehicles	43,815	27,653	(19,377)	52,091
	<u>12,909,135</u>	<u>75,325</u>	<u>(29,595)</u>	<u>12,954,865</u>
Less accumulated depreciation	<u>(6,030,441)</u>	<u>(328,743)</u>	<u>29,595</u>	<u>(6,329,589)</u>
Depreciable capital assets, net	<u>6,878,694</u>	<u>(253,418)</u>	<u>-</u>	<u>6,625,276</u>
Total capital assets, net	<u>6,941,743</u>	<u>(253,418)</u>	<u>(3,274)</u>	<u>6,685,051</u>

	2018	Additions	Disosals/ Transfers	2019
Nondepreciable capital assets:				
Land	59,775	-	-	59,775
Construction in progress	-	276,427	-	276,427
	<u>59,775</u>	<u>276,427</u>	<u>-</u>	<u>336,202</u>
Depreciable capital assets:				
Building	209,001	-	-	209,001
Tanks and standpipes	2,217,259	-	-	2,217,259
Transmission and distribution	10,382,686	26,277	-	10,408,963
Furniture and fixtures	93,828	9,754	-	103,582
Vehicles	52,091	480	-	52,571
	<u>12,954,865</u>	<u>36,511</u>	<u>-</u>	<u>12,991,376</u>
Less accumulated depreciation	<u>(6,329,589)</u>	<u>(326,398)</u>	<u>-</u>	<u>(6,655,987)</u>
Depreciable capital assets, net	<u>6,625,276</u>	<u>(289,887)</u>	<u>-</u>	<u>6,335,389</u>
Total capital assets, net	<u>6,685,051</u>	<u>(13,460)</u>	<u>-</u>	<u>6,671,591</u>

5. LONG-TERM DEBT

Kansas Public Water Supply Loan Fund – 2015

In January 2015 the district entered into a loan agreement with the KPWSLF under which the District borrowed \$794,984 at an interest and service fee rate of 2.31% payable in semi-annual installments of \$24,850 through maturity on August 1, 2036. As of December 31, 2019 and 2018, the outstanding balance of the loan was \$695,480 and \$728,541, respectively.

Per the agreement, the District maintains a loan reserve account in the amount of \$79,498.

Series 2012 Revenue Bond

In September 2012 the district issued Series 2012 Revenue Bonds in the amount of \$1,780,000 to refinance existing debt. The average net interest rate of the bond issue is 2.073% with a final bond maturity scheduled for August 1, 2025. The bond issue funded refinancing of existing debt only and there were no additional asset purchases associated with this bond issue. As of December 31, 2019 and 2018, the outstanding balance of the loan was \$865,000 and \$1,000,000, respectively.

Per the agreement, the District maintains a loan reserve account in the amount of \$161,139 which is on deposit with a bank in the form of a certificate of deposit with a maturity date of September 2022.

The District is required to maintain a Debt Service Coverage Ratio, as defined in the loan agreements of at least 125%.

Interest expense on long-term debt totaled \$35,280 and \$37,905 for the years ended December 31, 2019 and 2018, respectively.

Changes to the District's long-term debt are as follows:

Total long-term debt, beginning	\$ 1,728,541
Advances	-
Principal payments	<u>(168,061)</u>
Total long-term debt, ending	1,560,480
Less current portion	<u>173,830</u>
Noncurrent portion	<u><u>\$ 1,386,650</u></u>

Future maturities of long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	173,829	31,177	205,006
2021	174,615	28,130	202,745
2022	180,419	24,787	205,206
2023	186,242	20,990	207,232
2024	192,085	16,845	208,930
2025-2029	333,752	56,048	389,800
2030-2034	222,939	21,689	244,628
2035-2036	<u>96,599</u>	<u>2,381</u>	<u>98,980</u>
	<u><u>\$ 1,560,480</u></u>	<u><u>\$ 202,047</u></u>	<u><u>\$ 1,762,527</u></u>

Debt Service Coverage Ratio Calculation:

Income from operations	\$	88,609
Add:		
Depreciation and amortization		326,398
Interest income		<u>42,050</u>
Income available for debt service	\$	<u><u>457,057</u></u>
Debt service		
Interest expense	\$	35,280
Principal payments		<u>168,061</u>
	\$	<u><u>203,341</u></u>
Debt service coverage ratio		<u><u>2.25</u></u>

6. PENSION PLAN

Substantially all of the District's employees participate in the Kansas Public Employees Retirement System ("System"), a multiple employer public employee retirement system. The 2019 and 2018 payroll for employees covered by the System was \$142,061 and \$134,403, respectively.

Covered employees are required by state statute to contribute statutorily defined rates of their salary to the System. The District is required by statute to contribute the remaining amounts using the full funding method, which funds current costs each year and past service liability over a 40-year period. The contribution requirement for the year ended December 31, 2019 and 2018 was \$19,619 and \$20,490, respectively, which consisted of \$8,444 and \$7,995 from employees and \$12,511 and \$12,495, respectively from the District; these contributions represented approximately 14.8% and 15.2% percent of 2019 and 2018 covered payroll, respectively.

Effective for fiscal years beginning after June 15, 2014, GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions", which establishes accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement replaces the requirements of Statement No. 27, "Accounting for Pensions by State and Local Government Employers", as well as the requirements of Statement No. 50, "Pension Disclosures", as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. Also, this statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.

As of December 31, 2019, the District has not implemented GASB Statement No. 68 and therefore has not recorded a liability for its proportionate share of the unfunded liability in their pension plan on the balance sheet. If the District implemented GASB Statement No. 68, the District would have reported a liability of approximately \$103,000 and \$105,000 at December 31, 2019 and 2018, respectively, for its proportionate share of the net pension liability.

7. COMPENSATED ABSENCES

The District grants vacation to all employees at a rate based on years of experience and employees are scheduled to take vacation in the following year. In the event of termination, an employee is reimbursed for accumulated vacation days. Management of the District does not believe the related liability, if any, is material to the financial statements and accordingly has not accrued such a liability in the accompanying financial statements.

8. COMPLIANCE WITH KANSAS STATUTES

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the water district. There were no apparent statutory violations during the years ended December 31, 2019 and 2018.

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